



**FORTY-NINTH ANNUAL REPORT**

**FISCAL YEAR 2004-2005**

## **POOLED MONEY**

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## **INVESTMENT**

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## **BOARD**

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**PHIL ANGELIDES**

State Treasurer and Chairman

# Preface

## *Pooled Money Investment Board*

The Pooled Money Investment Board, created by the Legislature in 1955, is comprised of the State Treasurer, as chairman; the State Controller and the Director of Finance. At the end of fiscal year 2004-05, the members were Phil Angelides, Treasurer; Steve Westly, Controller and Thomas J. Cambell, Director of Finance.

The purpose of the Board is to design an effective cash management and investment program, using all monies flowing through the Treasurer's bank accounts and keeping all available funds invested consistent with the goals of safety, liquidity and yield.

The law restricts the Treasurer to investments in the following categories: U.S. government securities; securities of federally-sponsored agencies; domestic corporate bonds; interest-bearing time deposits in California banks, savings and loan associations, and credit unions, prime-rated commercial paper; repurchase and reverse repurchase agreements; security loans; banker's acceptances; negotiable certificates of deposit and loans to various bond funds. Subsequent sections of this report deal individually with the demand account and investment programs for which the Board has oversight responsibilities, and which the Treasurer directly administers.

During the 2004-05 fiscal year, program earnings totaled \$1.215 billion. Approximately \$431 million of this amount was credited to units of local government as a result of their deposits in our investment pool. This level of voluntary participation, which averaged \$19.464 billion, reflects the confidence they have in our investment management capabilities. The magnitude of these investment earnings provide a significant reduction in the tax burden that otherwise would have been imposed on the citizens of California.



# ***Pooled Money Investment Board***

## ***Forty-Ninth Annual Report***

### ***Fiscal Year 2004-2005***

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# Overview

## The Year in Review

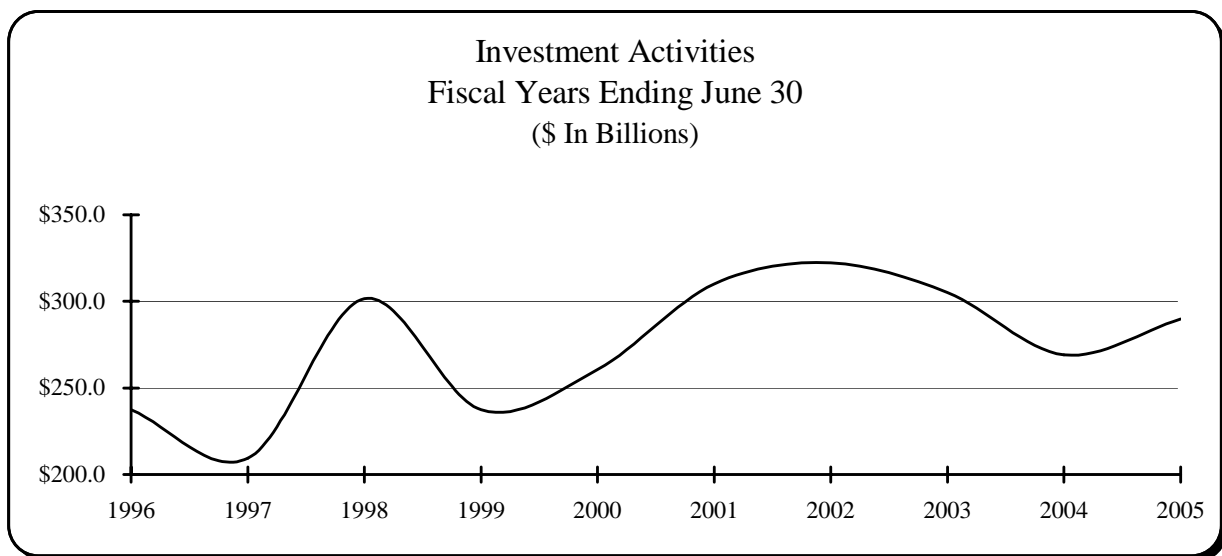
Average Daily Portfolio ..... \$53,860,487,192

Earnings ..... \$1,215,115,882

Effective Yield ..... 2.26%

## Investment Activity for the Fiscal Years Ending June 30 (\$ In Billions)

Fiscal Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Amount</b>	\$237.4	\$209.3	\$301.6	\$237.3	\$260.6	\$310.2	\$322.3	\$305.1	\$269.1	\$289.8
<b>Transactions</b>	5,721	5,120	7,108	5,804	6,447	7,889	8,025	7,524	6,630	6,961



Source: State Treasurer's Office, Investment Division

# 2004-05 Investment Market Conditions

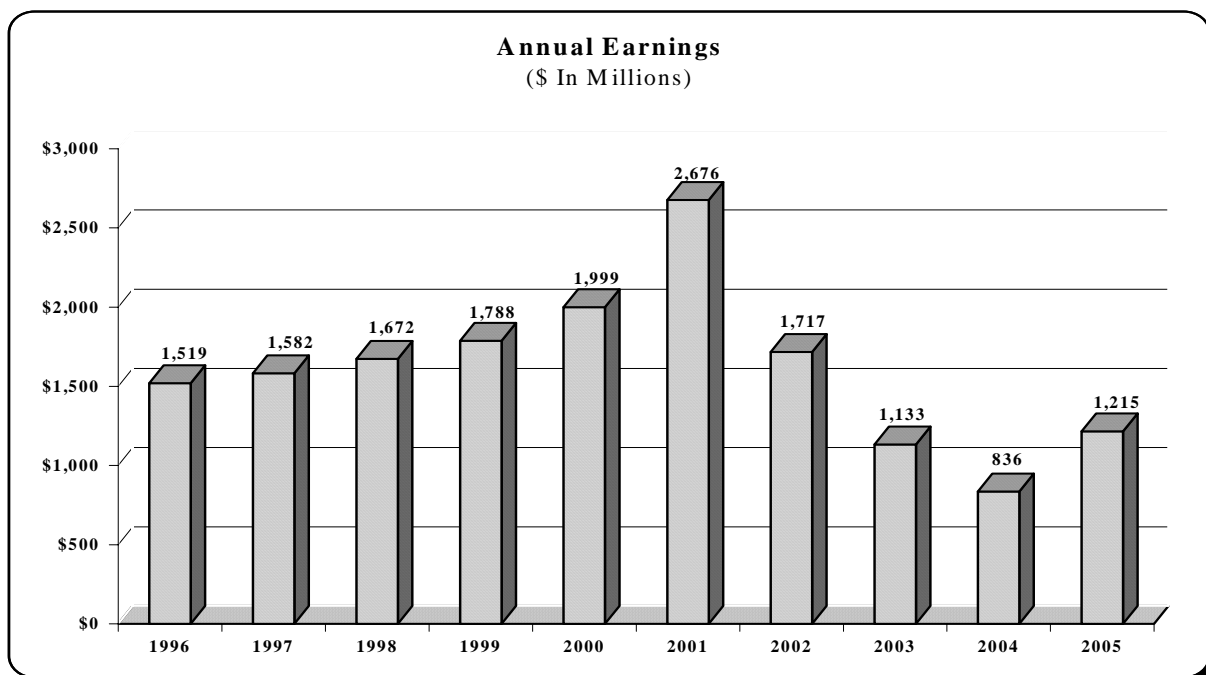
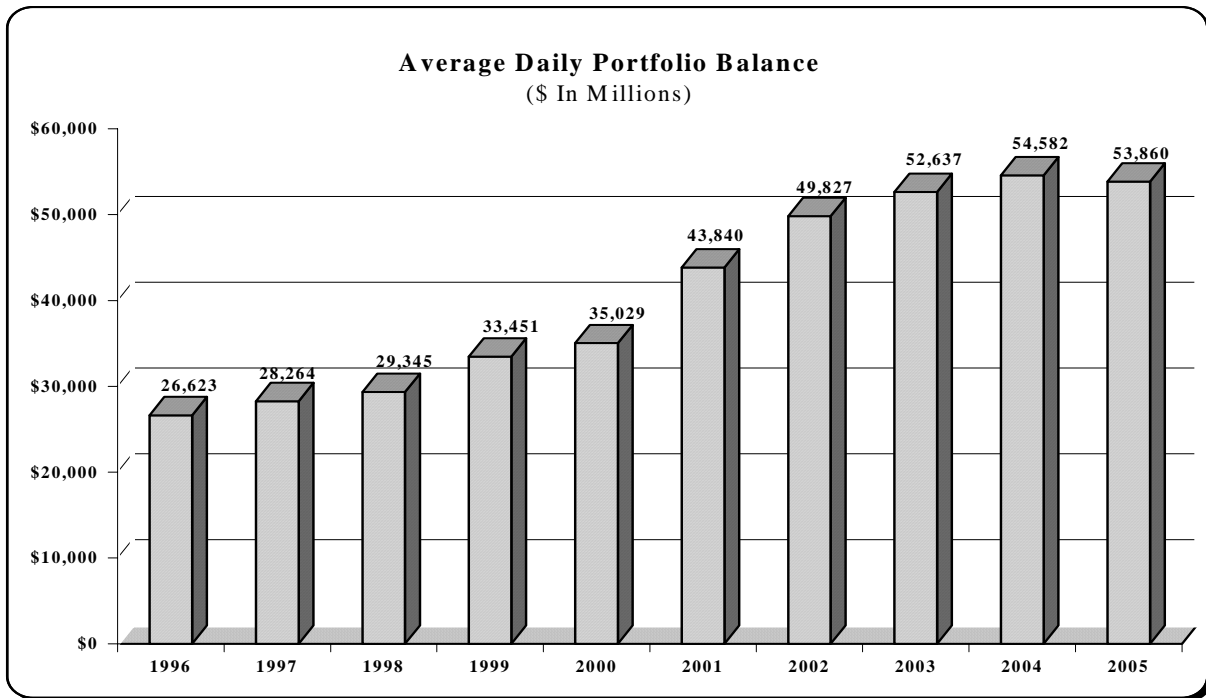
To indicate prevailing market conditions during the 2004-05 fiscal year, the following table shows monthly money market rates, as computed from daily closing bid prices. The information was obtained from Federal Reserve Bulletins published by the Board of Governors, Federal Reserve System, and the Bureau of Public Debt.

## Monthly Yield on Money Market Securities (Yield in Percent Per Annum)

Month	Federal Funds	3-Month Treasury Bills	90-Day Finance Company Commercial Paper	90-Day Certificate of Deposits	6-Month Treasury Bills	1-Year Treasury Bills	3-Year Treasury Issues
July 2004	1.26	1.35	1.51	1.57	1.67	2.10	3.05
August	1.43	1.50	1.65	1.68	1.73	2.02	2.88
September	1.61	1.67	1.81	1.86	1.88	2.12	2.83
October	1.76	1.75	1.97	2.04	2.00	2.23	2.85
November	1.93	2.09	2.20	2.26	2.29	2.50	3.09
December	2.16	2.21	2.38	2.45	2.46	2.67	3.21
January 2005	2.28	2.36	2.56	2.61	2.63	2.86	3.39
February	2.50	2.59	2.71	2.77	2.82	3.03	3.54
March	2.63	2.76	2.91	2.97	3.02	3.30	3.91
April	2.79	2.79	3.02	3.09	3.06	3.32	3.79
May	3.00	2.87	3.15	3.22	3.10	3.33	3.72
June	3.04	3.00	3.30	3.38	3.15	3.36	3.69
2004-2005 Average	2.20	2.25	2.43	2.49	2.48	2.74	3.33
2003-2004 Average	1.01	0.96	1.09	1.12	1.08	1.38	2.43
Increase-(Decrease)	1.19	1.29	1.34	1.37	1.40	1.36	0.90

Note: The 3- and 6-month Treasury Issues and 90-day Commercial Paper are quoted on a discount basis, 1- and 3-year Treasury Issues are quoted on a constant maturity basis.

# Comparison of Portfolio Balance and Earnings for Fiscal Years Ending June 30, 1996 through 2005



Source: State Treasurer's Office, Investment Division



# Pooled Money Investment Account

## Summary Statistics

Resources .....	\$	54,655.4	million per day on the average
Demand Accounts.....	\$	794.9	million per day on the average
Portfolio.....	\$	53,860.5	million per day on the average
Earnings .....	\$	1,073.1	million from security investments
		138.9	million from bank time deposits
		3.1	million from General Fund loans
Earning Rate .....		2.26	percent average for all investments
Dollar Value of Investment Transactions .....	\$	289.8	billion
Number of Investment Transactions .....		6,961	transactions
Time Deposits .....		95	banks, credit unions and savings banks held PMIA money at year-end

Source: State Treasurer's Office, Investment Division

Resources of the Pooled Money Investment Account averaged \$54,655,379,192 per day during the fiscal year although the daily figures fluctuated widely with receipts and disbursements. The high point for the year occurred on June 29, 2005, when the total reached \$68,238,804,836. Resources for the account were lowest on March 14, 2005, when balances totaled \$49,006,528,247.

A breakdown of an average day's resources during the fiscal year shows the following: \$794,892 million in non-interest-bearing bank accounts; \$47.403 billion in securities and General Fund Loans; and \$6.457 billion in interest-bearing time deposits.

On the closing day of the fiscal year, the following resources were on hand in the Pooled Money Investment Account:

Demand bank account	\$	459,206,230
Time bank account		7,115,995,000
Securities		<u>53,370,956,058</u>
<b>Total Resources</b>		<b>\$60,946,157,288</b>

## ***Demand Account Program***

Investments of the PMIA are made from monies flowing through the Treasurer's demand (non-interest-bearing) bank accounts maintained in the seven banks that serve as State depositories. Currently, the seven depository banks are: Bank of America, California Bank & Trust, Union Bank of California, Bank of the West, U.S. Bank, Wells Fargo Bank, and Westamerica Bank. A small portion of these funds must remain in the accounts as compensating balances which consist of (1) a balance for uncollected funds and (2) a balance for banking services. Uncollected funds represent the total dollar amount of checks deposited by the State for which the banks give immediate credit, but for which they do not receive good funds until these checks are presented to the banks on which they are drawn. The State allows the banks an average balance for uncollected funds equivalent to 1.3 calendar days on all checks deposited other than cashier's checks and checks under the presort of deposit system.

Under the presort of deposit system, the major revenue collecting agencies sort their checks by the seven State depository banks and then deposit them directly in the banks on which they are drawn, thus avoiding the need for providing bank balances for uncollected funds. The remaining checks are deposited under a contract whereby the depository bank receives bank balances equivalent to 1.100 calendar days for the amount of such deposits.

The balances allowed for banking services represent compensation for handling 338,842 deposits, 53.6 million checks deposited, 330,870 dishonored checks, \$866.6 million in currency deposited, \$10.9 million in coin deposited, 121.4 million warrants and 1,076 checks paid.

All amounts in excess of these compensating balances are promptly invested by the Treasurer. Intensive and expert analysis of receipts and disbursement data is used daily to estimate the State's rapidly shifting cash position in order to determine exactly how much money is available for investment. This results in maximum earnings consistent with prudent management.

Compensating balances are determined by a formula, which accounts for the estimated volume of each service item as well as its unit cost. The rate schedule for the compensating balance formula is determined through annual negotiations with the State's depository banks and the cost for any particular service may be raised or lowered as conditions warrant. Adjustments for the difference between actual and estimated work load for any fiscal year are made in the following fiscal year. The State made no changes in the rate schedule for banking services for the 2004-05 fiscal year. In addition to the rates shown below, the State agreed to include the costs of account reconciliation and electronic funds transfer services within the compensating balance formula starting in the 1991-92 fiscal year.

The costs for these two services are paid (with balances) on a lagged, actual basis when billed by each bank. The banks were subject to the following rate schedule for the 2004-05 fiscal year:

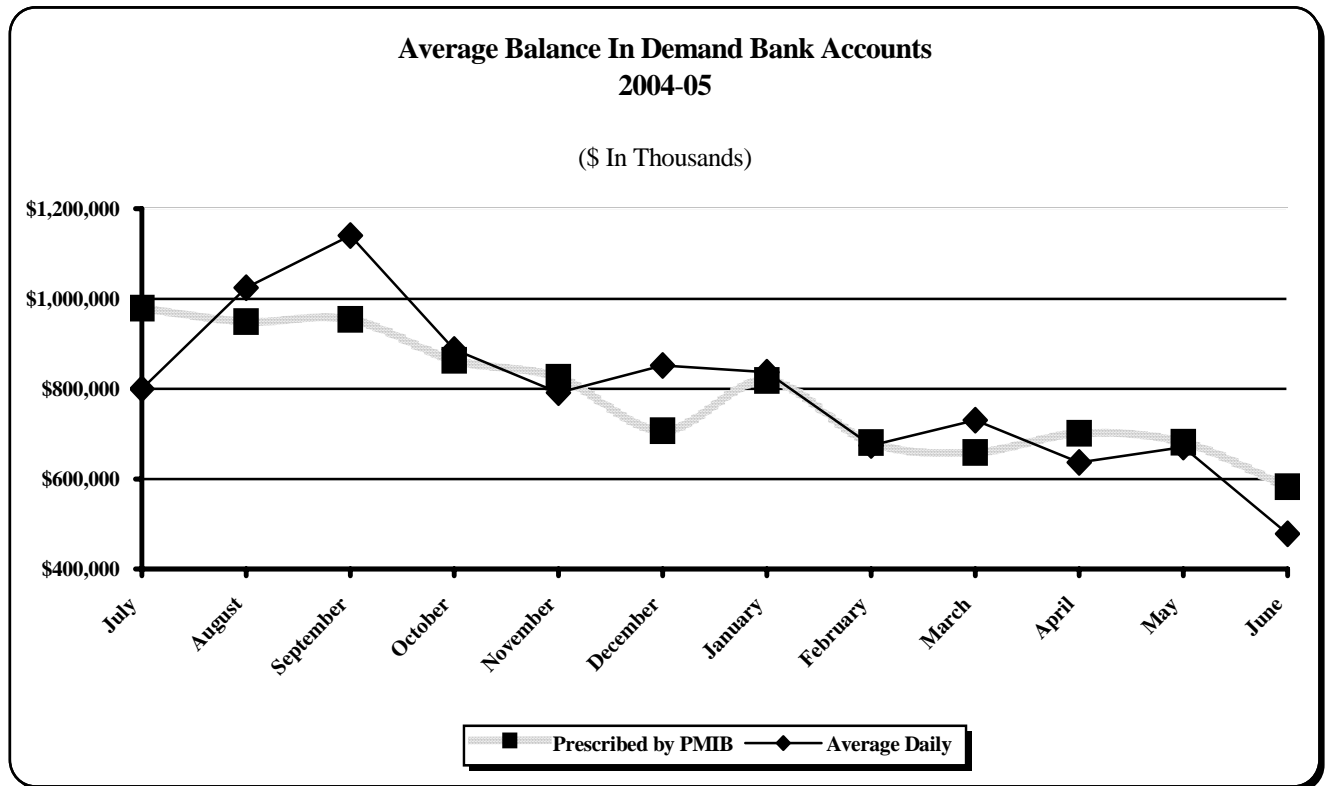
## Rate Schedule For Banking Services 2004-05 Fiscal Year

Encoded Checks Deposited	
"On Us" .....	\$ 0.040
"Other" .....	0.053
Non-Encoded Checks Deposited.....	0.090
Warrants Paid.....	0.010
Checks Paid.....	0.120
Dishonored Checks.....	2.750
Deposits.....	1.400
Split Bags Deposits.....	0.550
Coin Deposited.....	11.00 per thousand
Currency Deposited.....	1.05 per thousand
Account Maintenance.....	15.00 per month
Daily Statements.....	6.00 per statement

Source: State Treasurer's Office, Cash Management Division

# Average Daily Balance in Demand Bank Accounts 2004-05 (\$ In Thousands)

Month	Bank Balance Required for Banking Services	Bank Balance Required for Uncollected Funds	Less Net Delayed Deposit Credit	Bank Balance Prescribed by PMIB	Actual Average Daily Bank Balance
July 2004	\$842,824	\$139,137	\$3,093	\$978,868	\$800,343
August	817,056	135,626	3,311	949,371	1,024,349
September	747,740	212,071	5,714	954,098	1,140,166
October	733,616	134,669	4,774	863,511	887,501
November	635,442	194,176	3,764	825,855	791,159
December	533,868	175,466	2,416	706,918	851,944
January 2005	635,710	187,035	4,158	818,587	837,101
February	574,989	125,990	20,198	680,781	674,291
March	553,882	109,038	4,190	658,730	730,166
April	407,679	298,010	4,262	701,427	636,714
May	422,582	261,897	3,373	681,106	670,712
June	417,656	168,585	3,627	582,614	478,284
Weighted Average	\$611,181	\$178,471	\$5,127	\$784,525	\$794,892



Source: State Treasurer's Office, Cash Management Division

# *Investment Program*

Although the Pooled Money Investment Board designates how much shall be invested in interest-bearing time accounts and securities, it is the responsibility of the State Treasurer to administer the investment program on a day-to-day basis in line with overall Board policy. This entails a daily determination of amounts available for investment, or the need for liquidating securities to meet estimated warrant redemption requirements, while maintaining the approved compensating balance position. This means that the State Treasurer must continually adjust the estimates for receipts and disbursements to reflect current available information.

For the 2004-05 fiscal year, investments in time deposits ranged from \$5,816,795,000 to \$7,115,995,000 and averaged \$6,457,397,466. There were 1,700 transactions totaling \$38,472,770,000 during the year. California commercial banks, savings banks and credit unions receiving these State deposits must secure them with approved securities having a market value of at least 110 percent of the deposits or with approved promissory notes secured by mortgages or deeds of trust having a market value of at least 150 percent of the deposits. The same collateral requirements also apply to the State's demand accounts. At the end of fiscal year 2004-05, interest-bearing time deposits were held by 69 commercial banks, 13 credit unions and 13 savings banks throughout California. For the fiscal year, PMIA holdings in time deposits had an average yield of 2.15 percent.

The amount of money designated by the Board for investment in securities varies dramatically throughout the year. Such designations are made at least monthly, and again, the State Treasurer handles the actual investments, determining the issue and maturity of authorized securities to be bought or sold in accordance with cash needs and both current and projected market conditions. During fiscal year 2004-05, there were 2,646 security purchase transactions and 2,615 security sales or redemption transactions, with a total investment activity of \$251.3 billion.

Total earnings for the Pooled Money Investment Account in fiscal year 2004-05 were \$1,215,115,882. These earnings were credited as follows:

General Fund	\$233,228,923
Fish and Game Preservation Fund	\$ 153,023
Surplus Money Investment Fund	\$547,361,386
Local Agency Investment Fund	\$431,339,088
Public Employee's Retirement Fund	\$ 1,820,246
State Teacher's Retirement Fund	\$ 1,213,216

Earnings consisted of \$1,073,098,053 from security investments at an average 2.27 percent yield, \$138,940,007 from time deposits at an average 2.15 percent yield and \$3,077,822 from General Fund loans at an average 1.77 percent yield. The overall return on investment was 2.26 percent.

The portfolio holdings of the Pooled Money Investment Account for the 2004-05 fiscal year are illustrated in the following tables:

## Schedule of Security Purchases by Term 2004-05 Fiscal Year

(At Cost - \$ In Thousands)

Month	Under 10 Days	10-29 Days	30-89 Days	90 Days- 1 Year	1 - 3 Years	Over 3 Years	TOTALS
July 2004	\$1,899,687	\$179,853	\$459,582	\$2,209,292	\$512,211	\$10,399	\$ 5,271,024
August	2,011,778	569,835	249,183	2,123,659	299,654	133,325	5,387,434
September	1,033,749	1,138,003	971,932	3,421,413	283,030	23,728	6,871,855
October	2,399,629	873,220	2,549,569	4,832,629	1,219,327	15,980	11,890,354
November	1,809,443	1,864,252	545,883	4,412,136	1,047,572	25,582	9,704,868
December	3,521,754	2,289,928	448,211	6,315,416	199,804	318,524	13,093,637
January 2005	1,698,508	4,707,357	523,643	4,444,107	551,720	47,700	11,973,035
February	1,799,540	873,287	309,752	2,863,347	783,581	33,646	6,663,153
March	1,600,715	1,324,019	0	8,052,498	498,999	12,153	11,488,384
April	1,649,640	1,698,275	2,885,835	8,838,599	0	29,527	15,101,876
May	2,199,722	1,847,052	2,454,359	7,847,423	0	32,912	14,381,468
June	3,433,832	2,087,702	2,824,223	5,380,565	0	26,795	13,753,117
<b>Total</b>	<b>\$25,057,997</b>	<b>\$19,452,783</b>	<b>\$14,222,172</b>	<b>\$60,741,084</b>	<b>\$5,395,898</b>	<b>\$710,271</b>	<b>\$125,580,205</b>
<b>Percent</b>	<b>19.95%</b>	<b>15.49%</b>	<b>11.33%</b>	<b>48.37%</b>	<b>4.30%</b>	<b>0.56%</b>	<b>100.00%</b>

Source: State Treasurer's Office, Investment Division

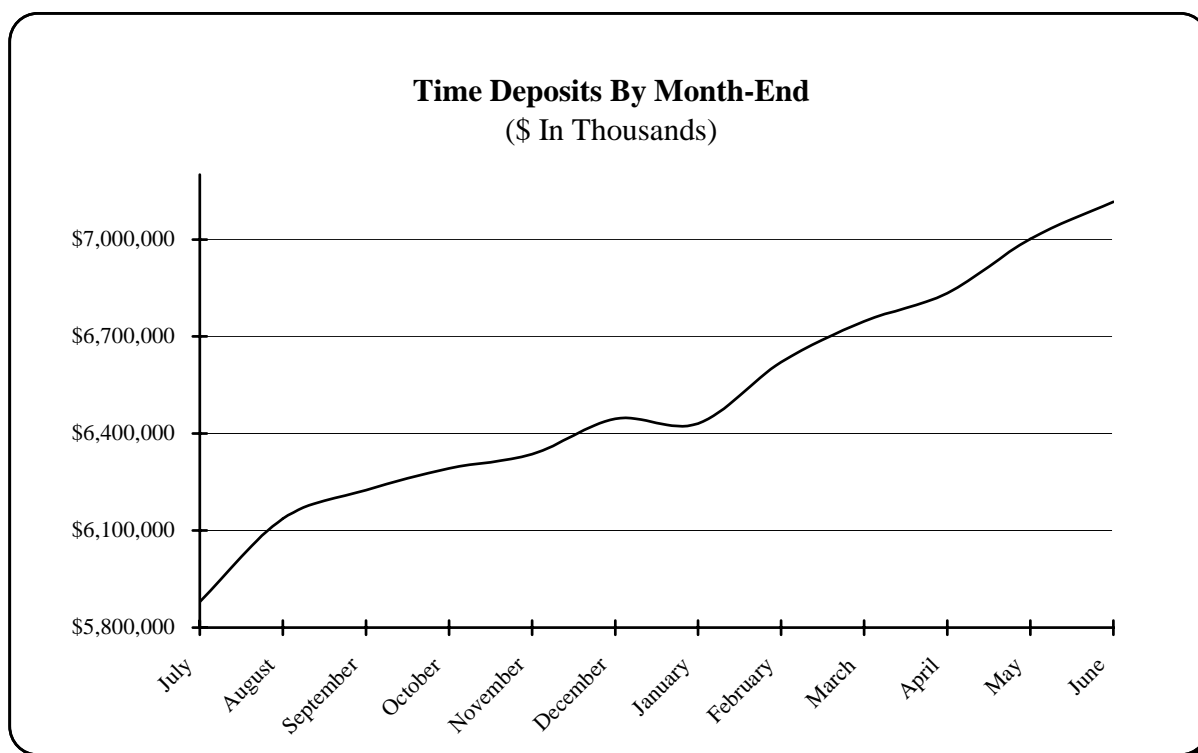
## Analysis of Portfolio 2004-05 Fiscal Year

Type Of Security	Average Daily Portfolio	Percent Of Portfolio	Earnings For Year	Effective Percentage Yield For Year	Average Portfolio Life on 6/30/05 (In Days)	Percent Of Portfolio On 6/30/05
U.S. Treasury Bills/Strips	\$2,293,125,134	4.26	\$47,472,890	2.07	88	3.43
U.S. Treasury Bonds & Notes	5,267,225,098	9.78	114,184,068	2.17	282	5.99
Federal Agency Cpn Securities	5,915,532,971	10.98	158,173,865	2.67	355	11.14
Federal Agency Discount Notes	8,412,484,368	15.62	177,008,539	2.10	88	12.12
GNMA	364,689	0.00	43,189	11.84	4,381	0.00
FHLMC	476,314,605	0.88	16,925,329	3.55	4,381	0.90
Negotiable CDs	11,190,401,708	20.78	258,456,246	2.31	63	26.56
Time Deposits	6,457,397,466	11.99	138,940,007	2.15	73	11.76
Bankers Acceptances	0	0.00	0	0.00	0	0.00
Commercial Paper	7,156,065,024	13.29	160,234,026	2.24	37	17.44
Corporate Bonds	1,600,263,722	2.97	49,968,861	3.12	323	2.13
Repurchase Agreements	4,520,548	0.01	89,764	1.99	13	0.00
Reverse Repurchase Agreements	(46,389,246)	-0.09	(1,124,767)	2.42	62	0.00
AB 55 Loans	4,959,232,461	9.21	91,666,043	1.85	213	8.53
General Fund Loans	173,948,644	0.32	3,077,822	1.77	46	0.00
<b>Total Portfolio</b>	<b>\$53,860,487,192</b>	<b>100%</b>	<b>\$1,215,115,882</b>	<b>2.26%</b>	<b>165</b>	<b>100%</b>

Source: State Treasurer's Office, Investment Division

## Time Deposits by Month-End 2004-05 Fiscal Year

Month	Total
July 2004.....	\$ 5,879,795,000
August.....	6,136,795,000
September.....	6,225,295,000
October.....	6,291,795,000
November.....	6,336,795,000
December.....	6,445,295,000
January 2005.....	6,430,795,000
February.....	6,620,495,000
March.....	6,746,495,000
April.....	6,833,495,000
May.....	7,001,995,000
June.....	7,115,995,000



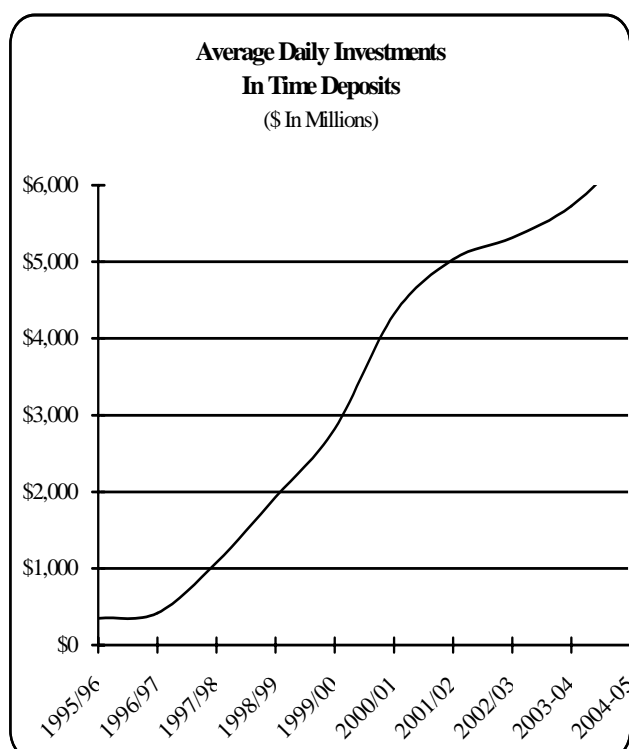
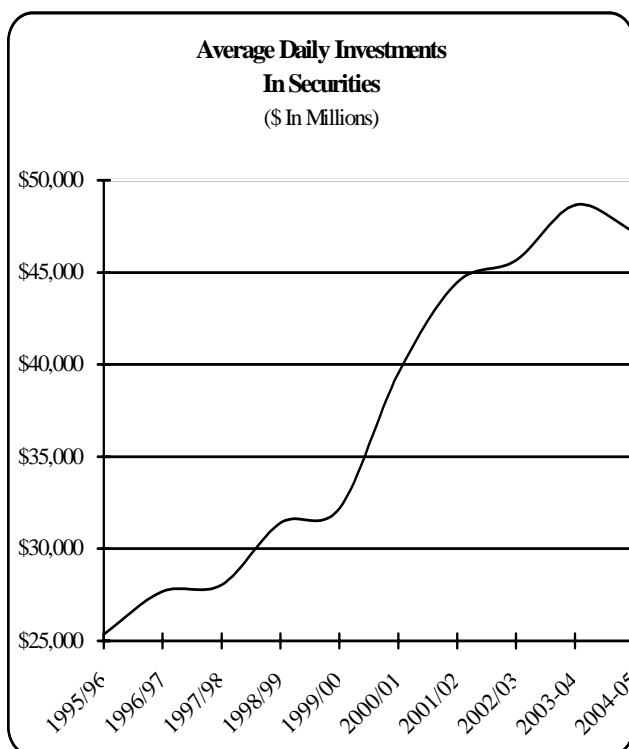
Source: State Treasurer's Office, Investment Division

# Summary of Investments and Earnings

## Fiscal Years Ending June 30, 1996 through 2005

(\$ In Thousands)

Investment in Securities				Investment in Time Deposits			
Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)	Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)
1995-96	\$ 25,362,783	\$ 1,448,002	5.71	1995-96	\$ 351,060	\$ 19,416	5.53
1996-97	27,674,553	1,550,599	5.60	1996-97	419,648	22,376	5.33
1997-98	28,034,192	1,601,603	5.71	1997-98	1,076,268	57,452	5.34
1998-99	31,409,593	1,688,570	5.38	1998-99	1,928,600	93,095	4.83
1999-00	32,177,870	1,845,503	5.74	1999-00	2,820,736	152,310	5.40
2000-01	39,522,485	2,424,943	6.14	2000-01	4,317,936	251,215	5.82
2001-02	44,467,159	1,563,523	3.52	2001-02	5,031,747	143,920	2.86
2002-03	45,644,967	1,013,254	2.22	2002-03	5,313,015	84,296	1.59
2003-04	48,663,614	771,823	1.59	2003-04	5,726,197	61,298	1.07
2004-05	47,229,141	1,073,098	2.27	2004-05	6,457,397	138,940	2.15



Source: State Treasurer's Office, Investment Division

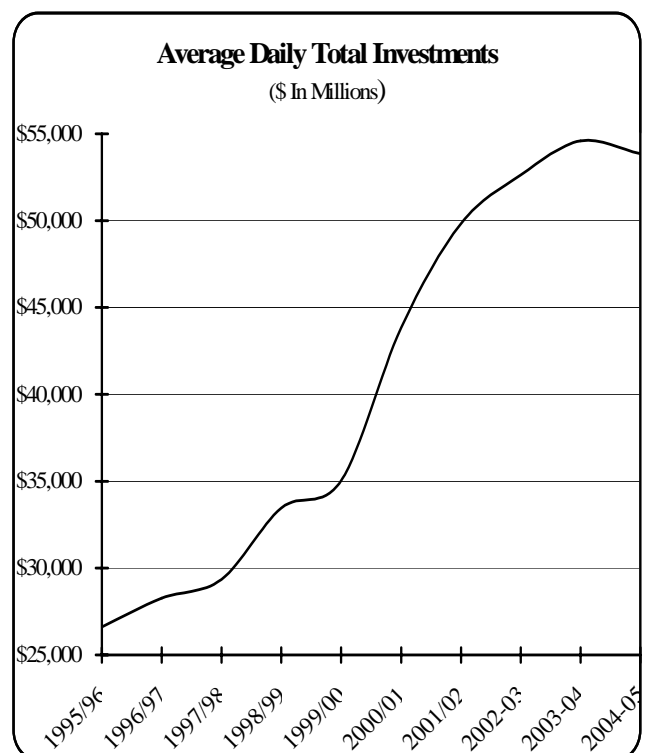
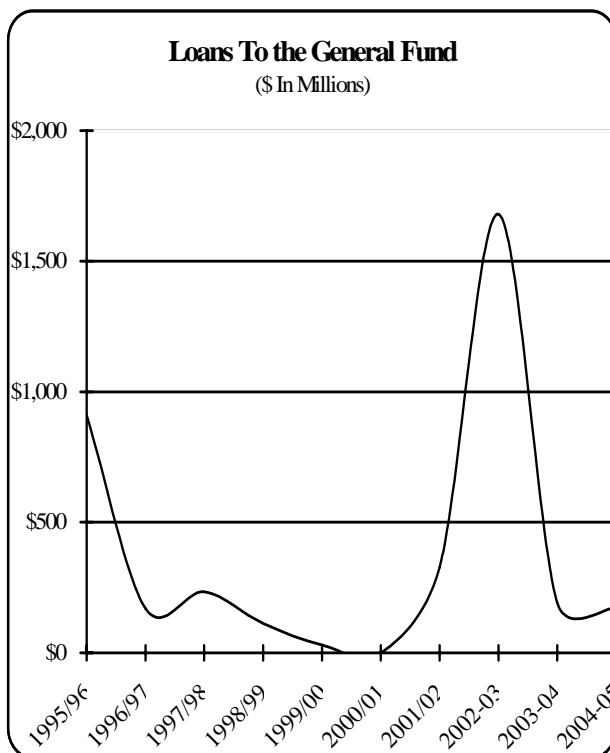


# Summary of Investments and Earnings

## Fiscal Years Ending June 30, 1996 through 2005

(\$ In Thousands)

Loans to General Fund				Total Investments			
Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)	Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)
1995-96	\$ 909,353	\$ 51,602	5.67	1995-96	\$ 26,623,196	\$ 1,519,020	5.71
1996-97	169,868	9,468	5.57	1996-97	28,264,069	1,582,443	5.60
1997-98	234,052	13,327	5.69	1997-98	29,344,512	1,672,382	5.70
1998-99	112,895	6,099	5.40	1998-99	33,451,088	1,787,764	5.34
1999-00	30,428	1,670	5.49	1999-00	35,029,034	1,999,483	5.71
2000-01	0	0	0	2000-01	43,840,421	2,676,158	6.10
2001-02	328,171	9,102	2.77	2001-02	49,827,077	1,716,545	3.45
2002-03	1,678,666	35,380	2.11	2002-03	52,636,648	1,132,930	2.15
2003-04	192,039	2,950	1.54	2003-04	54,581,850	836,072	1.53
2004-05	173,949	3,078	1.77	2004-05	53,860,487	1,215,116	2.26



Source: State Treasurer's Office, Investment Division

# Financial Community Coverage

(The following firms conducted investment transactions with the State Treasurer's Office during the 2004-05 Fiscal Year.)

ABN Amro Capital Markets	Greater Bay Bank, N.A.	Signature Securities
America California Bank	Hanmi Bank	Silvergate Bank
American Express Credit Corporation	Heritage Bank of Commerce	Societe Generale
American River Bank	Household Finance Corporation	State Bank of India (California)
Banc of America Securities LLC	HSBC Finance Corporation	Summit State Bank
Banco Popular	HSBC Securities, Incorporated	Sunwest Bank
Bank of Lodi, N.A.	Independence Bank	Sutter Securities Incorporated.
Bank of Montreal	J. P. Morgan Securities, Incorporated	The Bank of East Asia (USA), N.A.
Bank of Sacramento	Jackson Federal Bank	The Golden 1 Credit Union
Bank of the Sierra	Kaplan & Company Securities Group	The Mechanics Bank
Bank of the West	La Jolla Bank, FSB	Toyota Motor Credit Corporation
Banque National De Paris Paribas	Lehman Brothers Holdings, Incorporated	Trans Pacific National Bank
Barclays Capital Incorporated	Loop Capital Markets, LLC	Travis Credit Union
Bear Stearns and Company, Incorporated	Malaga Bank, SSB	Tri Counties Bank
Broadway Federal Savings Bank, FSB	Manufacturer's Bank	Trust Bank
Cal State 9 Credit Union	Mellon First Business Bank, N.A.	U.S. Bank, N.A.
California National Bank	Merchants National Bank of Sacramento	UBS Securities LLC
Calyon	Meriwest Credit Union	Union Banc Investment Services
Cantor Fitzgerald and Company	Merrill Lynch Capital Markets	Union Bank of California
Cathay Bank	Mesirow Financial, Incorporated	Union Safe Deposit Bank
Cedars Bank	Metropolitan Bank	United Commercial Bank
Center Bank	MFR Securities, Incorporated	United Security Bank
Central California Bank	Mid Peninsula Bank	Valley Community Bank
CHB America Bank	Mid State Bank and Trust	Valley Independent Bank
Chevron Texaco Funding Corporation	Mirae Bank	Wachovia Capital Markets, Incorporated
Chinatrust Bank (USA)	Mission Community Bank	Washington Mutual Bank, FA
Canadian Imperial Bank of Commerce	Mission Federal Credit Union	Wells Fargo Institutional Securities, Inc.
Citibank (West), FSB	Mizuho Securities USA, Incorporated	Wescom Credit Union
CitiGroup Global Markets Inc.	Morgan Stanley and Company	WestAmerica Bank
CitiGroup Funding Inc.	Nara Bank, N.A.	Western Sierra National Bank
Citizens Business Bank	National Bank of the Redwoods	Western Federal Credit Union
Comerica Bank	Neighborhood National Bank	(The) Williams Capital Group, L.P.
CommerceWest Bank	Nomura Securities International, Incorporated	Wilshire State Bank
Commercial Capital Bank	Oak Valley Community Bank	Xerox Federal Credit Union
Community Bank	Oceanic Bank	
Constitution Capital Corporation	Omni Bank, N.A.	
County Bank	One United Bank	
Credit Suisse/First Boston Corporation	Operating Engineers Local # 3 FCU	
D.A. Davidson and Company	Orange County Business Bank, N.A.	
Diablo Valley Bank	Pacific Capital Bank, N.A.	
East West Bank	Pacific State Bank	
Eastern International Bank	Pacific Western National Bank	
El Dorado Savings Bank	PFF Bank and Trust	
Euro Brokers/Maxcor, Incorporated	Preferred Bank	
EverTrust Bank	Premier America Credit Union	
Far East National Bank	Provident Central Credit Union	
Farmers & Merchants Bank of Central California	Provident Savings Bank	
First Bank of Beverly Hills, FSB	Quaker City Bank	
First Bank of San Luis Obispo	Rabobank	
First California Bank	Rabobank International	
First Coastal Bank, N.A.	Redwood Securities Group, Incorporated	
First Future Credit Union	River City Bank	
First Matrix Investments Services Corporation	Robert Van Securities, Incorporated	
First State Bank of California	Royal Bank of Canada	
First United Bank	Royal Bank of Scotland Plc	
Five Star Bank	Saehan Bank	
Ford Motor Credit Company	SAFE Credit Union	
Fortis Bank NV SA	San Luis Trust Bank	
Fullerton Community Bank, FSB	Santa Clara County Federal Credit Union	
Garban Corporates LLC	SBK-Brooks Investment Corporation	
General Electric Capital Company	Scotia Capital Markets (USA) Inc.	
General Motors Acceptance Corporation	Sears Roebuck Acceptance Corporation	
Goldman, Sachs & Company	Service First Bank	

# **Surplus Money Investment Fund**

## **Program Summary**

The Surplus Money Investment Fund consists of the available cash of all special funds which do not have investment authority of their own, and all or a portion of the available cash of special funds having investment authority of their own, but which have elected to be included in the program. Cash balances in excess of needs in any of these participating funds are invested by the State Treasurer.

The Pooled Money Investment Board is responsible for determining whether any cash balances of the participating funds are in excess of current needs and available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. This determination is performed operationally by the State Controller's Office by means of a continuing review of the cash balances of the participating funds.

As a result of these determinations, the State Controller prepares a document for the Pooled Money Investment Board's approval which authorizes the State Controller to increase or decrease the invested balances of the applicable funds.

All of the resources of the Surplus Money Investment Fund are invested through the Pooled Money Investment Account. Prior to the 1967-68 fiscal year, the Surplus Money Investment Fund was a separate investment program. In 1967, legislation was enacted (Chapter 505, Statutes 1967) which provided that money in the Surplus Money Investment Fund shall be invested through the Pooled Money Investment Account. This legislation further provided that the Surplus Money Investment Fund would share in the interest earnings of the Pooled Money Investment Account based on the ratio that the dollar-day contributions of the Surplus Money Investment Fund bear to the dollar-day investments of the Pooled Money Investment Account.

This legislation increased the potential investment earnings for both programs, since their high and low resource periods tend to complement each other. Consequently, under normal market conditions, more long-term, higher yielding securities may be purchased.

### **Earnings for 2004-05**

Gross earnings totaled \$547,361,386 for the 2004-05 fiscal year. This represents an earning rate of 2.25 percent for this investment program.

SMIF earnings are computed on a dollar-day basis to guarantee equitable distribution among all member funds and apportioned quarterly by the State Controller.

## Participation

There were over one thousand special funds and accounts participating in the Surplus Money Investment Fund as of the last day of the fiscal year—June 30, 2005. Their combined deposits totaled \$26,017,464,000.

Large contributors as of June 30, 2005, were the: Department of Water Resources Electric Power Fund, \$2,806,580,000; Unemployment Compensation Disability Fund, \$2,520,506,000; Operating Account, \$1,259,698,000; Public Buildings Construction Fund, \$1,239,824,000; California Housing Finance Fund, \$969,970,083.97; Fiscal Recovery Fund, \$905,436,000; Public Employees' Retirement Fund, \$838,209,000; State School Facilities Fund 2002, \$669,292,000; and the State Highway Account, \$572,046,000.

## The Year in Review

Resources.....	\$ 24.372 billion per day on average
Earnings.....	\$ 547.4 million
Earning Rate.....	2.25 percent

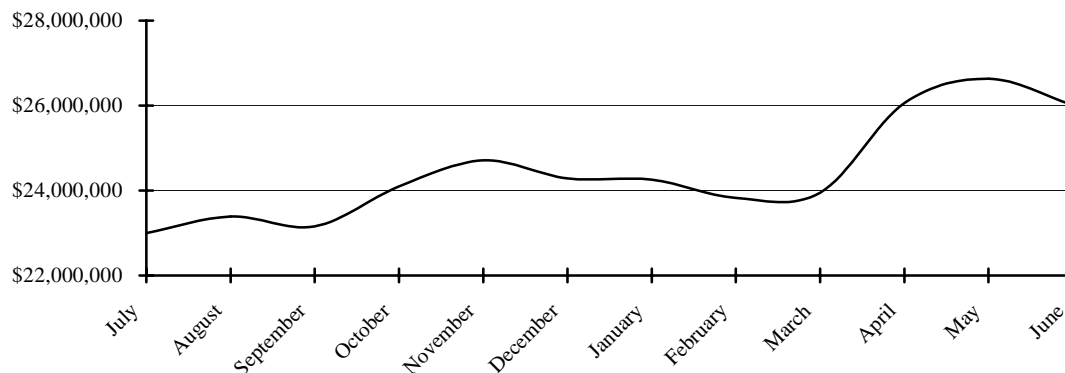
Source: State Treasurer's Office, Investment Division

Monthly deposit balances are shown in the following table:

### Resources of The Surplus Money Investment Fund 2004-05 Fiscal Year (Month-End Balances)

Month	Total
July 2004.....	\$22,994,972,000
August.....	23,388,152,000
September.....	23,157,723,000
October.....	24,099,987,000
November.....	24,710,231,000
December.....	24,289,678,000
January 2005.....	24,258,519,000
February.....	23,828,588,000
March.....	23,947,484,000
April.....	26,057,239,000
May.....	26,636,318,000
June.....	26,017,464,000

**Resources of the Surplus Money Investment Fund**  
**2004-05**  
**Fiscal Year (Month-End Balances)**  
(\$ In Thousands)



Source: State Controller's Office, *Report of Cash Assets of all Funds in the State Treasury*

# Local Agency Investment Fund

## Program Summary

The Local Agency Investment Fund was established by Chapter 730, Statutes of 1976. This fund enables local governmental agencies or trustees to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the Pooled Money Investment Account.

Each participating agency determines the length of time its money will be on deposit with the State Treasurer with the exception of bond proceeds, which must remain for a minimum of 30 days. At the end of each calendar quarter, all earnings derived from investments are distributed by the State Controller to the participating government agencies in proportion to each agency's respective amounts deposited in the Fund and the length of time such amounts remained therein. Prior to the distribution, the State's reasonable costs of administering this program are deducted from the earnings.

### Earnings for 2004-05

Gross earnings for fiscal year 2004-05 totaled \$431,339,088. This represented a 2.22 percent yield for this investment program.

### Participation

As of June 30, 2005, there were 2,702 participants in the Local Agency Investment Fund consisting of 54 counties, 472 cities, 1,742 special districts, 260 trustees and 174 bond accounts. Deposits in the fund averaged \$19.464 billion for the year.

## The Year in Review

Resources.....	\$	19.464	billion per day on average
Earnings.....	\$	431.3	million
Earning Rate.....		2.22	percent
Participation.....		2,702	Agencies or accounts at year-end.

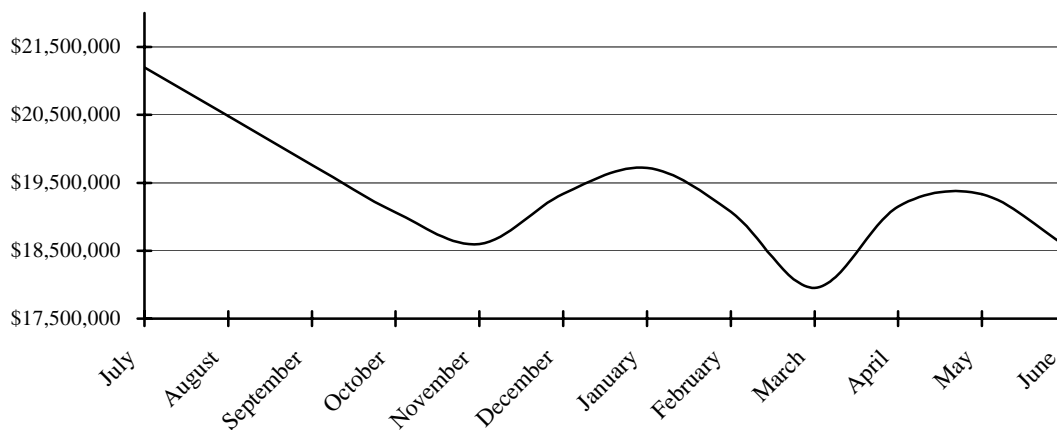
Source: State Treasurer's Office, Investment Division (LAIF)

The following table shows monthly resources of the Local Agency Investment Fund.

**Resources of  
The Local Agency Investment Fund  
2004-05 Fiscal Year (Month-End Balances)**

<b>Month</b>	<b>Total</b>
July 2004.....	\$21,198,336,678
August.....	20,481,281,748
September.....	19,763,207,151
October.....	19,064,284,591
November.....	18,596,111,366
December.....	19,336,669,050
January 2005.....	19,719,270,020
February.....	19,073,528,861
March.....	17,954,312,051
April.....	19,148,269,126
May.....	19,331,389,329
June.....	18,573,277,668

**Resources of the Local Agency Investment Fund  
2004-05 Fiscal Year (Month-End Balances)**  
(\$ In Thousands)



Source: State Treasurer's Office, Investment Division (LAIF)

# Appendices



## Appendix A

### Pooled Money Investment Account Summary of Investments and Earnings (\$ In Thousands)

Fiscal Year	Average Investment Portfolio	Earnings	Annual Earnings Rate (Percent)	Average Earning Rate (Percent)		
				5 Years	10 Years	15 years
1956-57	\$ 393,742	\$ 9,573	2.43			
1957-58	594,306	16,421	2.76			
1958-59	544,868	15,762	2.89			
1959-60	614,835	21,045	3.42			
1960-61	736,204	28,139	3.82	3.23		
1961-62	867,144	26,521	3.06	3.19		
1962-63	910,863	30,548	3.35	3.31		
1963-64	896,535	32,519	3.63	3.46		
1964-65	966,592	38,004	3.93	3.56		
1965-66	1,083,347	47,761	4.41	3.68	3.48	
1966-67	1,057,800	52,540	4.97	4.06	3.62	
1967-68	1,117,717	56,566	5.06	4.40	3.85	
1968-69	1,301,302	78,174	6.01	4.88	4.17	
1969-70	1,216,414	84,781	6.97	5.48	4.52	
1970-71	1,264,894	77,527	6.13	5.83	4.75	4.32
1971-72	1,397,494	68,350	4.89	5.81	4.93	4.35
1972-73	2,254,401	125,116	5.55	5.91	5.15	4.54
1973-74	2,594,629	232,780	8.97	6.50	5.69	4.94
1974-75	2,749,431	238,298	8.67	6.84	6.16	5.29
1975-76	3,209,143	204,303	6.37	6.89	6.36	5.46
1976-77	4,460,487	261,657	5.87	7.08	6.45	5.65
1977-78	6,843,940	458,625	6.70	7.31	6.61	5.87
1978-79	8,123,266	692,417	8.52	7.22	6.86	6.20
1979-80	8,285,941	873,469	10.54	7.60	7.22	6.64
1980-81	7,298,693	786,877	10.78	8.48	7.69	7.07
1981-82	5,234,524	631,968	12.07	9.72	8.40	7.54
1982-83	5,254,589	549,229	10.45	10.47	8.89	7.90
1983-84	7,094,849	738,462	10.41	10.85	9.04	8.19
1984-85	11,903,660	1,275,503	10.72	10.89	9.24	8.44
1985-86	15,438,406	1,401,990	9.08	10.55	9.51	8.64
1986-87	19,167,196	1,425,047	7.43	9.62	9.67	8.81
1987-88	17,628,558	1,388,074	7.87	9.10	9.79	8.96
1988-89	17,496,405	1,516,767	8.67	8.75	9.80	8.94
1989-90	19,558,775	1,692,905	8.66	8.34	9.61	8.94
1990-91	20,754,895	1,663,140	8.01	8.13	9.34	9.05
1991-92	21,456,433	1,329,476	6.20	7.88	8.75	9.07
1992-93	23,051,543	1,085,126	4.71	7.25	8.18	8.94
1993-94	25,433,078	1,115,660	4.39	6.39	7.57	8.67
1994-95	26,802,123	1,482,574	5.53	5.77	7.05	8.33
1995-96	26,623,196	1,519,020	5.71	5.31	6.72	7.99
1996-97	28,264,069	1,582,443	5.60	5.19	6.53	7.56
1997-98	29,344,512	1,672,382	5.70	5.38	6.32	7.25
1998-99	33,451,088	1,787,765	5.34	5.58	5.98	6.91
1999-00	35,029,034	1,999,483	5.71	5.61	5.69	6.57

## Appendix A (Continued)

Fiscal Year	Average Investment Portfolio		Earnings	Annual Earnings Rate (Percent)	Average Earning Rate (Percent)		
					5 Years	10 Years	15 years
2000-01	\$	43,840,421	\$ 2,676,158	6.10	5.69	5.50	6.38
2001-02		49,827,077	1,716,545	3.45	5.27	5.22	6.11
2002-03		52,636,648	1,132,930	2.15	4.55	4.97	5.73
2003-04		54,581,850	836,072	1.53	3.79	4.68	5.25
2004-05		53,860,487	1,215,116	2.26	3.10	4.36	4.83

Source: The average investment portfolio, earnings and annual earnings rate were taken from the published *Annual Report of the Pooled Money Investment Board* for each fiscal year. Please see the following note.

### NOTE TO PMIA SUMMARY OF INVESTMENTS AND EARNINGS TABLE

The Pooled Money Investment Board was established as an agency of State government by Chapter 1703, Statutes of 1955, and became operational in April 1956. The 1956-57 fiscal year was the first full year for the Pooled Money Investment Account (PMIA). In 1957-58, the Surplus Money Investment Fund (SMIF) and the Condemnation Deposits Fund (CDF) were placed under the administration of the PMIB. Separate investment portfolios were managed for these two funds for a number of years. SMIF operated this way until the 1967-68 fiscal year, when legislation allowed this fund to be invested as a part of the PMIA. The CDF continued as a separate investment portfolio until 1975, when it also was combined with the PMIA. In order to make data for the early years in the table comparable to the later years (1975-76 and after), the average daily investment and the annual earnings for both SMIF and CDF were combined with those for the PMIA. The earning rates for these early years were computed using these combined figures.

# HISTORICAL PMIA YIELDS

(Yield In Percent Per Annum)

			ALLOCATION RATE	
MONTHLY		ANNUAL	LAIF	SMIF
DATE	AVERAGE	AVERAGE	QUARTERLY	SEMI-ANNUAL
Jan-77	5.77	5.87	5.68	5.79
Feb-77	5.66			
Mar-77	5.66			
Apr-77	5.65		5.78	5.79
May-77	5.76			
Jun-77	5.85			
Jul-77	5.93		5.84	6.18
Aug-77	6.05			
Sep-77	6.09			
Oct-77	6.39		6.45	
Nov-77	6.61			
Dec-77	6.73			
Jan-78	6.92	6.70	6.97	7.17
Feb-78	7.05			
Mar-78	7.14			
Apr-78	7.27		7.35	8.09
May-78	7.39			
Jun-78	7.57			
Jul-78	7.65		7.86	8.98
Aug-78	7.82			
Sep-78	7.87			
Oct-78	8.11		8.32	9.66
Nov-78	8.29			
Dec-78	8.77			
Jan-79	8.78	8.52	8.81	9.66
Feb-79	8.90			
Mar-79	8.82			
Apr-79	9.08		9.10	9.66
May-79	9.05			
Jun-79	9.22			
Jul-79	9.20		9.26	9.66
Aug-79	9.53			
Sep-79	9.26			
Oct-79	9.81		10.06	9.66
Nov-79	10.22			
Dec-79	10.22			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-80	10.98	10.54	11.11	11.38
Feb-80	11.25			
Mar-80	11.49			
Apr-80	11.48		11.54	11.38
May-80	12.02			
Jun-80	11.80			
Jul-80	10.21		10.01	10.21
Aug-80	9.87			
Sep-80	9.95			
Oct-80	10.06		10.47	10.21
Nov-80	10.43			
Dec-80	10.96			
Jan-81	10.99	10.78	11.23	11.69
Feb-81	11.69			
Mar-81	11.13			
Apr-81	11.48		11.68	11.69
May-81	12.18			
Jun-81	11.44			
Jul-81	12.35		12.40	12.19
Aug-81	12.84			
Sep-81	12.06			
Oct-81	12.40		11.91	12.19
Nov-81	11.89			
Dec-81	11.48			
Jan-82	11.68	12.07	11.82	11.93
Feb-82	12.04			
Mar-82	11.84			
Apr-82	11.77		11.99	11.93
May-82	12.27			
Jun-82	11.99			
Jul-82	12.24		11.74	11.26
Aug-82	11.91			
Sep-82	11.15			
Oct-82	11.11		10.71	11.26
Nov-82	10.70			
Dec-82	10.40			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-83	10.25	10.45	9.87	9.98
Feb-83	9.89			
Mar-83	9.69			
Apr-83	9.87			
May-83	9.53			
Jun-83	9.60			
Jul-83	9.88			
Aug-83	10.08			
Sep-83	10.20			
Oct-83	10.18			
Nov-83	10.16			
Dec-83	10.23			
Jan-84	10.31	10.41	10.32	10.63
Feb-84	10.28			
Mar-84	10.38			
Apr-84	10.59			
May-84	10.84			
Jun-84	11.12			
Jul-84	11.36			
Aug-84	11.56			
Sep-84	11.60			
Oct-84	11.68			
Nov-84	11.47			
Dec-84	11.02			
Jan-85	10.58	10.72	9.98	10.19
Feb-85	10.29			
Mar-85	10.12			
Apr-85	10.03			
May-85	10.18			
Jun-85	9.74			
Jul-85	9.66			
Aug-85	9.42			
Sep-85	9.57			
Oct-85	9.48			
Nov-85	9.49			
Dec-85	9.37			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
			LAIF QUARTERLY	SMIF SEMI-ANNUAL
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE		
Jan-86	9.25	9.08	9.09	8.70
Feb-86	9.09			
Mar-86	8.96			
Apr-86	8.62		8.39	
May-86	8.37			
Jun-86	8.23			
Jul-86	8.14		7.81	
Aug-86	7.84			
Sep-86	7.51			
Oct-86	7.59		7.48	
Nov-86	7.43			
Dec-86	7.44			
Jan-87	7.37	7.44	7.24	7.23
Feb-87	7.16			
Mar-87	7.21			
Apr-87	7.04		7.21	
May-87	7.29			
Jun-87	7.29			
Jul-87	7.46		7.54	
Aug-87	7.56			
Sep-87	7.71			
Oct-87	7.83		7.97	
Nov-87	8.12			
Dec-87	8.07			
Jan-88	8.08	7.87	8.01	7.95
Feb-88	8.05			
Mar-88	7.95			
Apr-88	7.94		7.87	
May-88	7.82			
Jun-88	7.93			
Jul-88	8.09		8.20	
Aug-88	8.25			
Sep-88	8.34			
Oct-88	8.40		8.45	
Nov-88	8.47			
Dec-88	8.56			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

MONTHLY DATE AVERAGE			ALLOCATION RATE	
			LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-89	8.70	8.67	8.76	8.97
Feb-89	8.77			
Mar-89	8.87			
Apr-89	8.99			
May-89	9.23			
Jun-89	9.20			
Jul-89	9.06		8.87	
Aug-89	8.83			
Sep-89	8.80			
Oct-89	8.77			
Nov-89	8.69			
Dec-89	8.65			
Jan-90	8.57	8.66	8.68	8.78
Feb-90	8.54			
Mar-90	8.51			
Apr-90	8.50			
May-90	8.53			
Jun-90	8.54			
Jul-90	8.52		8.52	
Aug-90	8.38			
Sep-90	8.33			
Oct-90	8.32			
Nov-90	8.27			
Dec-90	8.28			
Jan-91	8.16	8.01	8.27	8.34
Feb-91	8.00			
Mar-91	7.78			
Apr-91	7.67			
May-91	7.37			
Jun-91	7.17			
Jul-91	7.10		7.38	
Aug-91	7.07			
Sep-91	6.86			
Oct-91	6.72			
Nov-91	6.59			
Dec-91	6.32			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	ALLOCATION RATE	
			LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-92	6.12	6.20	5.87	5.65
Feb-92	5.86			
Mar-92	5.68			
Apr-92	5.69		5.45	5.65
May-92	5.38			
Jun-92	5.32			
Jul-92	5.24		4.97	5.65
Aug-92	4.96			
Sep-92	4.76			
Oct-92	4.73		4.67	4.82
Nov-92	4.66			
Dec-92	4.65			
Jan-93	4.68	4.71	4.64	4.82
Feb-93	4.65			
Mar-93	4.62			
Apr-93	4.61		4.51	4.61
May-93	4.43			
Jun-93	4.55			
Jul-93	4.44		4.44	4.61
Aug-93	4.47			
Sep-93	4.43			
Oct-93	4.38		4.36	4.39
Nov-93	4.37			
Dec-93	4.38			
Jan-94	4.36	4.39	4.25	4.39
Feb-94	4.18			
Mar-94	4.25			
Apr-94	4.33		4.45	4.36
May-94	4.43			
Jun-94	4.62			
Jul-94	4.82		4.96	4.36
Aug-94	4.99			
Sep-94	5.11			
Oct-94	5.24		5.37	5.15
Nov-94	5.38			
Dec-94	5.53			



# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
			LAIF QUARTERLY	SMIF SEMI-ANNUAL
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE		
Jan-95	5.61	5.53	5.76	5.87
Feb-95	5.78			
Mar-95	5.93			
Apr-95	5.96			
May-95	6.01			
Jun-95	6.00			
Jul-95	5.97			
Aug-95	5.91			
Sep-95	5.83			
Oct-95	5.78			
Nov-95	5.81			
Dec-95	5.75			
Jan-96	5.70	5.71	5.62	5.56
Feb-96	5.64			
Mar-96	5.56			
Apr-96	5.54			
May-96	5.50			
Jun-96	5.55			
Jul-96	5.59			
Aug-96	5.57			
Sep-96	5.60			
Oct-96	5.60			
Nov-96	5.60			
Dec-96	5.57			
Jan-97	5.58	5.59	5.56	5.59
Feb-97	5.58			
Mar-97	5.58			
Apr-97	5.61			
May-97	5.63			
Jun-97	5.67			
Jul-97	5.68			
Aug-97	5.69			
Sep-97	5.71			
Oct-97	5.71			
Nov-97	5.72			
Dec-97	5.74			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

MONTHLY ANNUAL DATE AVERAGE AVERAGE			ALLOCATION RATE	
			LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-98	5.74	5.70	5.70	5.67
Feb-98	5.72			
Mar-98	5.68			
Apr-98	5.67		5.66	
May-98	5.67			
Jun-98	5.67			
Jul-98	5.65		5.64	
Aug-98	5.65			
Sep-98	5.64			
Oct-98	5.56		5.46	
Nov-98	5.49			
Dec-98	5.37			
Jan-99	5.26	5.34	5.19	5.55
Feb-99	5.21			
Mar-99	5.14			
Apr-99	5.12		5.08	
May-99	5.09			
Jun-99	5.09			
Jul-99	5.18		5.21	
Aug-99	5.22			
Sep-99	5.27			
Oct-99	5.39		5.49	
Nov-99	5.48			
Dec-99	5.64			
Jan-00	5.76	5.71	5.80	5.34
Feb-00	5.82			
Mar-00	5.85			
Apr-00	6.01		6.18	
May-00	6.19			
Jun-00	6.35			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	ALLOCATION RATE	
			LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jul-00	6.44	6.10	6.47	6.49
Aug-00	6.50			
Sep-00	6.50			
Oct-00	6.52		6.52	6.49
Nov-00	6.54			
Dec-00	6.53			
Jan-01	6.37		6.16	5.73
Feb-01	6.17			
Mar-01	5.98			
Apr-01	5.76		5.32	5.73
May-01	5.33			
Jun-01	4.96			
Jul-01	4.63	3.45	4.47	3.99
Aug-01	4.50			
Sep-01	4.29			
Oct-01	3.78		3.52	3.99
Nov-01	3.53			
Dec-01	3.26			
Jan-02	3.07		2.96	2.85
Feb-02	2.97			
Mar-02	2.86			
Apr-02	2.84		2.75	2.85
May-02	2.74			
Jun-02	2.69			
Jul-02	2.71	2.63	2.63	2.47
Aug-02	2.59			
Sep-02	2.60			
Oct-02	2.49		2.31	2.47
Nov-02	2.30			
Dec-02	2.20			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

MONTHLY AVERAGE			ALLOCATION RATE	
			LAIF QUARTERLY	SMIF * QUARTERLY
DATE	ANNUAL AVERAGE			
Jan-03	2.10	2.15	1.98	1.86
Feb-03	1.94			
Mar-03	1.90			
Apr-03	1.86			
May-03	1.77			
Jun-03	1.70			
Jul-03	1.65			
Aug-03	1.63			
Sep-03	1.64			
Oct-03	1.60			
Nov-03	1.57			
Dec-03	1.55			
Jan-04	1.53	1.53	1.47	1.47
Feb-04	1.44			
Mar-04	1.47			
Apr-04	1.45			
May-04	1.43			
Jun-04	1.47			
Jul-04	1.60			
Aug-04	1.67			
Sep-04	1.77			
Oct-04	1.89			
Nov-04	2.00			
Dec-04	2.13			
Jan-05	2.26	2.26	2.38	2.37
Feb-05	2.37			
Mar-05	2.54			
Apr-05	2.72			
May-05	2.86			
Jun-05	2.97			

\*Effective January 1, 2004, SMIF earnings are allocated quarterly.

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